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The R&D Slush Fund

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To most Americans, including their representatives on Capitol Hill, the acronym IR&D/B&P is just another unintelligible sequence of letters that surfaces occasionally in Washington's ever-thickening alphabet soup. But to the management and employees of the vast network of corporate military-industrial laboratories in this country the letters represent a hidden billion-dollar-a-year pipeline for military research and development funds that are doled out free of Congressional control. IR&D/B&P provides the seed money for the next generation of weapons—long before Congress or the public have heard about them.

The Pentagon's little-known Independent Research and Development (IR&D) and Bid and Proposal (B&P) programs reimburse defense contractors for military-related research-and-development projects that they undertake on their own initiative. These funds, unlike direct contracts for R&D, are free from the burdensome reporting requirements and Congressional oversight that accompany regular contract research. Over the last two decades, some of the most dangerous new weapons, such as strategic cruise missiles, high-energy lasers, space-based surveillance systems, precision-guided munitions, lightweight fighter aircraft and the B-1 bomber, have all been nurtured in their infancy through IR&D/B&P funding.

Like much of the intelligence budget, the sums devoted to IR&D/B&P are hidden in the budget as components of ordinary line items for contract research, development and procurement. Thus, Congress does not know the details of the programs. Moreover, since the projects are lumped into the contractor's overhead for all military R&D projects, and since these costs are not always audited, the Pentagon itself is not exactly sure how much it is spending each year for IR&D/B&P. In 1978 "estimated" IR&D/B&P costs of $1.24 billion amounted to 11 percent of the total budget for "Research, Development, Test and Evaluation," but 31 percent of the budgeted program for "Research, Exploratory Development, and Advanced Development," the earliest stages of the R&D process. What this means, in effect, is that roughly one-third of all Government spending for new weapons concepts and innovative military technology is neither authorized nor reviewed by Congress. For those seeking to analyze why the dizzying pace of innovations in military technology never seems to slacken, the IR&D/B&P programs are a good place to begin.

Government regulations define IR&D as "technical effort which is not sponsored by, or required in performance of, a contract or grant." Bid and Proposal costs are those incurred while preparing both solicited and unsolicited bids for Government work, including the cost of generating substantial engineering data to convince the Pentagon of the proposed project's feasibility. In practice there are no common accounting standards that clearly define which charges are IR&D and which are B&P. The Pentagon jointly administers the programs, and contractors are allowed to shift their claims for reimbursement back and forth between the two categories. Companies are allowed to recover their IR&D/B&P costs in proportion to the Government's share of their total business. In other words, if 90 percent of a company's business is with the Pentagon and NASA, then the taxpayers pick up 90 percent of its independent research and bidding expenses.

The Pentagon controls these funds by requiring companies whose IR&D/B&P expenses exceed $2 million in a given year to negotiate "advance agreements" establishing a ceiling for such costs during the following year and to submit technical reports on their projects. After the end of the fiscal year, the Pentagon sends a classified report to the Senate Armed Services Committee listing the ninety to 100 contractors with advance agreements and the size of their IR&D/B&P programs. A few months later, an unclassified extract, containing only aggregate figures, is quietly inserted into the *Congressional Record*. That is the sum total of Congressional oversight of the program.

As part of a forthcoming major study on defense-contractor lobbying practices, the Council on Economic Priorities recently obtained Pentagon data, disclosing for the first time the amounts fifteen contractors received from IR&D between 1973 and 1978. (See Table.) This data reveals the importance of the IR&D program for the overall contractor investment in research work; Pentagon funds covered over half of the R&D investment of LTV, Martin Marietta and Raytheon in those years, and more than 25 percent for E-Systems, General Dynamics, Grumman, Lockheed and Rockwell International.

These figures do not include these companies' Bid and Proposal expenses, which fact suggests the need for further disclosure. Typically, reimbursements for all IR&D/B&P average 3.5 to 4 percent of a contractor's annual sales to the Defense Department, but there is no statutory limit on the level of reimbursement. In the case of a small, innovative firm whose development work is considered an urgent priority by the Defense Department, it may range as high as 10 to 15 percent of sales, according to one industry source.

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